

Message Text

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ACTION EB-07

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INT-05 LAB-04 NSAE-00 NSC-05 PA-02 AID-05 CIEP-02

SS-15 STR-04 TAR-01 TRSE-00 USIA-15 PRS-01 SP-02

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SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 165596

FOLLOWING IS TEXT OF NARRATIVE ON INVESTMENT CLIMATE IN GUYANA AS
REQUESTED REFTEL:

LITTLE NEW DIRECT FOREIGN INVESTMENT HAS OCCURRED IN GUYANA DURING
THE PAST FOUR YEARS. ECONOMIC NATIONALISM MANIFESTED BY
NATIONALIZATION OF THE BAUXITE INDUSTRY (ALCAN AND REYNOLDS),
AND GUYANA'S ANNOUNCED POLICY TO ESTABLISH A SOCIALIST ECONOMY
HAVE SHARPLY DETERRED FOREIGN INVESTOR INTEREST. OTHER
DISINCENTIVES HAVE BEEN GUYANA'S SMALL MARKET, GENERALLY SLOW
ECONOMIC GROWTH, AND CAUTIOUS PRIVATE SECTOR DISINCLINED TO
RISK FURTHER INVESTMENT.

ANY FOREIGN INVESTOR IS IN PRACTICE REQUIRED TO ENTER INTO A JOINT
VENTURE WITH THE GOVT IN WHICH THE GOVT WILL BE THE MAJORITY
PARTNER, WILL HAVE MANAGEMENT CONTROL, AND IN MOST CASES WILL
CONTROL EXPORTS. THERE IS SOME FLEXIBILITY IN THIS PRACTICE
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DEPENDING UPON THE DEGREE OF TECHNOLOGY THE INVESTMENT MAY OFFER.

THE ONLY SIGNIFICANT FOREIGN PRIVATE INVESTMENT UPON WHICH AGREEMENT HAS BEEN REACHED RECENTLY INVOLVES THE GOVT AS THE MAJORITY PARTNER BUT WOULD GIVE THE EXPATRIATE INVESTOR, A U.S. FIRM, A FIVE-YEAR MANAGEMENT CONTRACT.

PRICE CONTROLS ON A VARIETY OF COST OF LIVING COMMODITIES TEND TO DISCOURAGE INVESTMENT IN RELATED INDUSTRIES. ALTHOUGH THE GOVT DOES NOT ACTIVELY FAVOR ESTABLISHMENT OF LIGHT INDUSTRY ASSEMBLY OPERATIONS WHICH PRODUCE GOODS PRIMARILY FOR EXPORT TO DEVELOPED COUNTRIES, IT IS NOT ADVERSE TO SUCH QUOTE SCREWDRIVER UNQUOTE INDUSTRIES IF THEIR PURPOSE IS TO SUPPLY THE DOMESTIC AND CARICOM MARKETS. TWO SUCH FIRMS, A SMALL RADIO FACTORY AND A REFRIGERATOR ASSEMBLY PLANT, WENT INTO OPERATION WITHIN THE PAST TWELVE MONTHS.

IN 1973 THE CARICOM MEMBER STATES CONCLUDED " AN AGREEMENT ON HARMONIZATION OF FISCAL INCENTIVES TO INDUSTRY" WHICH REGULARIZES TAX HOLIDAYS AND DEPRECIATION ALLOWANCES. MEASURES TAKEN IN GUYANA, HOWEVER, WHICH TEND TO COUNTER THE EFFECTS OF THE AGREEMENT INCLUDE A PRIOR LICENSE REQUIREMENT FOR ALL IMPORTS, PROHIBITION OF LOCAL BORROWING BY EXPATRIATE FIRMS, A HIGHLY PROGRESSIVE PERSONAL INCOME TAX STRUCTURE, AND INCREASED STATE TRADING WHICH LIMITS THE PRIVATE FIRM'S CHOICE OF SUPPLIER. PARA.

NATIONALIZATION OF THE REYNOLDS BAUXITE INTEREST IN GUYANA WAS EFFECTED TO THE SATISFACTION OF THE GOVT, REYNOLDS, AND OPIC, COMPENSATION PAYMENTS ARE SCHEDULED TO BEGIN IN 1976. GUYANA'S PAYMENTS FOR OTHER NATIONALIZED PROPERTY HAVE THUS FAR BEEN CARRIED OUT IN GOOD FAITH.

THE TOTAL ESTIMATED BOOK VALUE OF U.S. INVESTMENT IN GUYANA TODAY IS UNDER DOLS 15 MILLION. ROUGHLY FIVE MILLION IS IN MANUFACTURING AND SERVICES, THE REMAINDER IS IN BANKING AND INSURANCE. THERE IS NO RELIABLE ESTIMATE FOR TOTAL FOREIGN DIRECT INVESTMENT IN GUYANA, BUT CLEARLY THE BRITISH-BASED BOOKER MCCONNELL ORGANIZATION (SUGAR INDUSTRY) HAS BY FAR THE LARGEST INVESTMENT, PROBABLY WELL OVER DOLS 100 MILLION. NET PRIVATE CAPITAL TRANSFERS IN 1974 AMOUNTED TO APPROXIMATELY DOLS 8 MILLION AS ESTIMATED BY THE BANK OF GUYANA. THIS FIGURE IS NET OF DEPRECIATION. THERE ARE NO DATA AVAILABLE FOR GUYANESE INVESTMENT IN THE UNITED UNCLASSIFIED

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STATES.
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